Canadian Pacific Limited

Annual Report 1977

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1978 Annual General Meeting

The Annual General Meeting of the Shareholders is to be held on Wednesday, May 3rd, 1978, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

Canadian Pacific Limited

Brief of Canadian Pacific to the Parliamentary Committee on Education, Cultural Affairs and Communications with respect to Bill No. 1 entitled "Charter of the French language in Québec"

INTRODUCTION

1. Canadian Pacific welcomes the opportunity o present its views to the Legislative Committee lealing with Bill 1, the charter of the French lan-juage in Québec. The proposed language legis-ation raises important issues and there is a need or a frank expression of views. It is with this ap-roach that we make this submission.

2. As background, it will be helpful to describe riefly the history and present activities of Canadian acific, one of Canada's major companies with a resent net property investment of approximately 4.7 billion and employing, directly and through ts controlled subsidiaries, some 91,000 people.

3. Canadian Pacific Limited (then called anadian Pacific Railway Company) was incor-orated by Federal statute in 1881. The initial hrust of the company was to construct the country's irst transcontinental railway, which task was com-leted by 1885. It is fair to say that the construction f this railway was instrumental in making eco-iomically viable the political union of Canada.

4. From the outset, the company never felt ound by its beginnings and has always been an utward-looking enterprise, fully aware of the vast otential of Canada and also quite at home in the vider world. The present principal business inter-sts of Canadian Pacific, including Canadian Pa-ific Limited and the 84%-owned Canadian Pacific nvestments Limited, can be summarized as ollows:

Rail:

— The transcontinental railway, CP Rail, has een headquartered in Montréal from its incep-ion. Québec operations are an integral part of the ailway, and CP Rail employs some 7,500 people ı the Province of Québec aside from its head ffice. The Atlantic Region of CP Rail, which in-ludes Québec, the Maritimes, part of Ontario and perations in Maine, New Hampshire and Vermont, ias its principal office in Montréal. Canadian Pacific ilso has a controlling position in the Soo Line

Railroad Company, a U.S. railway headquartered in Minneapolis, Minnesota.

Shipping:

— In 1886, Canadian Pacific began chartering ships on the Pacific Ocean, to connect with the recently completed transcontinental railway and not many years later acquired an interest in trans-Atlantic shipping. Shipping is today represented by CP Ships, headquartered in London, England and operating a North Atlantic container service, and CP Bermuda, headquartered in Hamilton, Bermuda and operating in the liquid and dry bulk shipping markets around the world. The regional office for the North American operations of CP Ships is in Montréal and its North American container terminal is located at L'Anse-au-Foulon, Québec. CP Ships employs 120 people in Québec.

Aviation:

— Beginning in 1939, a series of acquisitions of small regional airlines (mostly operating north to south) was made, resulting in the formation in 1942 of Canadian Pacific Air Lines, Limited (CP Air), a major domestic and international air carrier headquartered in Vancouver, B.C. CP Air's route pattern reaches from the Mediterranean to Southeast Asia and Australia, serving 14 countries and 5 continents. CP Air services Dorval and Mirabel Airports in Québec and provides employment for some 340 people in the Province.

Trucking:

— CP Express, whose operations antedate those of the railway, provides service for the movement of packaged goods largely by truck. As a result of a series of acquisitions made between 1946 and 1948 in Western Canada, the purchase in 1958 of control of the Smith group of trucking companies in Eastern Canada and the U.S.A., and the development of routes by Canadian Pacific itself, CP Transport (the parent Company of all these ventures) headquartered in Toronto, Ontario, is the largest trucking organization in Canada.

:P Transport has extensive operations in Québec vhere it employs some 1,360 people.

Telecommunications:

— Beginning with the use of railway telegraph nes for commercial communications service, CP 'elecommunications, headquartered in Montréal, ıas evolved into a modern commercial communicaons enterprise, offering a wide variety of services vithin Canada jointly with CN Telecommunications. :xtensive operations are carried out in Québec /here employment, exclusive of the Head Office, ; some 540 people.

Hotels:

— Responding to the need to accommodate ailway passengers in Western Canada, Canadian 'acific began to construct and operate hotels in 886. Today, CP Hotels, headquartered in Toronto, ; a major operator of hotels, restaurants and flight itchens across Canada and abroad, ranging from /lexico to Tel Aviv. Québec operations include Le :hâteau Frontenac in Québec City, Le Château :hamplain in Montréal, Le Château Montebello ı Montebello, flight kitchens at Dorval and Mirabel ırports and motor hotels in Sherbrooke and Trois- ?ivières. Le Château de l'Aéroport, a hotel to serve /lirabel Airport, is presently under construction. 'otal Québec employment is some 1,600 people.

Mining:

— Represented by a controlling position in :ominco Ltd., headquartered in Vancouver and ne of the world's major mining and fertilizer enterrises and Fording Coal Limited, headquartered ı Calgary and a major coking coal producer. :ominco's international operations include venures in the U.S.A., Australia, Greenland and Spain. Vhile there are no mining operations in Québec, xploration activities have been carried out.

Real Estate:

— Represented by 100% ownership of Maraıon Realty Company Limited, headquartered in 'oronto, with major holdings of office buildings,

industrial buildings, shopping centres and residential units across Canada and now expanding into the United States. In the Province of Québec, Marathon owns three shopping centres including the recently acquired Place Laurier Shopping Centre in Québec City, two large office buildings in Montréal and other buildings containing nearly 2 million square feet of space. Its subsidiary Marathon Aviation Terminals Limited owns aviation-related facilities at Dorval and Mirabel Airports. Employment in the Province of Québec is 175 people.

Forest Products:

— Represented by a controlling position in The Great Lakes Paper Company, Limited, headquartered in Thunder Bay, Ontario, and a producer of newsprint, wood pulp, panel board and stud lumber, and by 100% ownership in Pacific Logging Company Limited, headquartered in Victoria, B.C. and operating in the fields of logging and sawmills on Vancouver Island and the West Coast of British Columbia. Another subsidiary, Commandant Properties, Limited owns a small forest operation in Québec.

Oil and Gas:

— Represented by a controlling position in PanCanadian Petroleum Limited, headquartered in Calgary, Alberta, and one of Canada's largest non-integrated oil and gas companies operating both domestically and abroad. Foreign exploration activities are located principally in the U.S.A. and Greenland.

Iron and Steel:

— Represented by a controlling position in The Algoma Steel Corporation, Limited, headquartered in Sault Ste. Marie and Canada's third largest integrated steel producer, and a controlling position in Steep Rock Iron Mines Limited which operates an iron ore mine at Atikokan, Ontario. Algoma Steel has a major ownership position in Dominion Bridge Company, Limited, a metal-fabricating company operat-

ing in Canada and the U.S.A., which is a major employer in the Province of Québec.

Animal By-Products:

— Represented by 100% ownership of Rothsay Concentrates Co. Limited headquartered in Kitchener, Ontario and operating in that province, and Baker Commodities, Inc. headquartered in Los Angeles, California and operating throughout the Southwest United States.

Miscellaneous:

— Canadian Pacific, in a joint venture with the Tate & Lyle group of the U.K., has formed Unitank Limited, which is headquartered in Montréal and is presently completing the construction of the country's largest third-party liquid storage facility at Beauport Flats, Québec City. Canadian Pacific Consulting Services Ltd., headquartered in Montréal, provides consulting services to private, governmental and multi-national clients throughout the world. Since its inception in 1970, it has served clients located in 37 countries.

5. Canadian Pacific can thus be truly called a transnational, multi-faceted enterprise. The dispersion of the company's operations is shown by the geographic distribution of net property investment. This tabulation excludes holdings in the investment portfolio and weights investments in controlled companies by the percentage of Canadian Pacific Limited ownership. As can be seen, a total of 7% of the net property investment is located in the Province of Québec.

Geographic Distribution of Net Property Investment at December 31, 1976

	Properties at Cost, less Depreciation (millions)	Percent of Total
Canada		
Maritimes	$ 30	—
Québec	318	7
Ontario	1,209	26
Manitoba	96	2
Saskatchewan	229	5
Alberta	648	14
B.C., N.W.T. and Yukon	691	15
Transportation	800	17
	$4,021	86
Outside Canada		
U.S.A.	180	4
Other	97	2
Ocean Ships	365	8
	$ 642	14
TOTAL	$4,663	100%

6. Canadian Pacific is owned by Canadians. At the end of World War II, only 10% of the voting stock of Canadian Pacific Limited was held by Canadian registrants. At present, this figure is over 70%.

7. Since its incorporation, the overall corporate administrative headquarters of Canadian Pacific have been in Montréal. The original selection of Montréal as the head office location can be attributed to the fact that Montréal, in the 1880's, was the country's major transportation and commercial centre, to the personal preferences of the company's founders and to the sources of its early finances. No doubt the initial selection of Montréal as the head office location of the company contributed considerably to further growth of the city and helped attract other major head offices.

8. At the present time, Montréal is the head office location of the parent company, Canadian Pacific Limited, and its major subsidiary, Canadian Pacific Investments Limited. It is also the head office location of the two major divisions of Canadian Pacific Limited — CP Rail and CP Telecommunications, and of a number of smaller companies. Total head office employment and payroll in Montréal of the Canadian Pacific group are as follows:

	Total Annual Payroll Costs	Number of Employees
CPL and CPI and their subsidiaries	$26.5 million	1242
CP Rail	26.0 million	1154
CP Telecommunications	6.2 million	264
	$58.7 million	2660

General Statement of Position

9. Through its Québec operations and by having its major head office facilities in Montréal, Canadian Pacific makes a significant contribution to the economy of Québec, and, directly and indirectly, to the ability of many Francophones to live in an environment which is supportive of the French language and culture.

10. Canadian Pacific's policy regarding language in Québec makes a clear distinction between specific Québec operations and head offices that are national and international in scope and located in Québec. The policies and practices which have evolved over the last decade may be summarized as follows.

Québec Operations

In these operations, it is Canadian Pacific's policy that French be the principal language of work and considerable progress has been made in achieving this goal. However, a working knowledge of English is a normal requirement for certain managerial positions and for those positions involving communications outside Québec or with the general public.

Head Offices in Québec

The policy of the Company on the use of French in head offices is:

1. To permit French-speaking employees to work in their own language to the extent practicable.

2. To ensure that equal opportunity exists for advancement on the basis of ability.

3. To reflect, to the extent practicable, the Francophone character of the Province of Québec.

To achieve this, Canadian Pacific has an extensive language training program for both employees and their families, utilizes bilingual documents, notices, signs, forms and administrative material intended for general use by the public or by employees, and ensures that head office departments having primary contact with the public or which exist to deal with employees are appropriately staffed with bilingual personnel.

11. Given the nature of the head office functions of the Canadian Pacific group of companies, the commercial realities of the world in which we operate and the need to attract a substantial proportion of specialists and managers from English-speaking areas outside Québec, the common language of work at the Canadian Pacific head offices located in Montréal has been and continues to be English.

12. Canadian Pacific has an interest in responding to commercial opportunities in the Province of Québec and an equal interest in continuing our head office location in Montréal. However, our investments in Québec, as in any area, will respond to the economic situation in that area and to its perceived prospects. Also, any language, educational or other laws in Québec that limit or inhibit our ability to effectively manage our business, would impel us to make whatever changes are necessary to guarantee the effective functioning and continuity of our head office.

Québec Operations

13. Canadian Pacific employs approximately 12,000 people in its Québec operations. Of these, less than 10% can be classified as unilingual Anglophones. As stated, it is our policy and objective that French be the principal language of work for these operations. While this objective has not been totally attained, we are making every effort to close the remaining gaps as quickly as possible. At present, it is the practice in all those operations to serve the public in Québec in the language of their choice, both oral and written. Written communications with employees are in both languages; and a growing proportion of internal communications, both written and oral, are in French. There has been a substantial effort to recruit and train bilingual people at all levels of operations, and considerable progress has been made in translating various manuals and preparing technical lexicons.

14. However, a knowledge of English is necessary for:

— those dealing with the general public

— managers dealing with their head offices

— all those dealing with customers, suppliers, or employees outside of Québec

— Québec-based employees performing part of their duties outside of Québec — for example, truck drivers or railway crews

— employees in operations which are a part of national or international continuous process carried out in English — for example, the billing of railway traffic.

15. The considerable progress which has been achieved in our local Québec operations has been on a voluntary co-operative basis and we are committed to completing the program on the same basis. We therefore question the need for a language statute that takes precedence over the charter of human rights and freedoms, and for the very sweeping powers, with no rights of appeal,

which are given to the administrators of the statute. We believe the legislation would better serve the needs of Quebecers if it provided for an appeal tribunal independent of those who will administer the act, which included amongst its members the Minister of Industry & Commerce and to which appeals from administrative decisions could be referred. The inclusion of the Minister of Industry & Commerce would allow the economic interests of the Province to be given full weight in the event of a contentious application of the language statute.

Head Office Operations in Québec

16. It is with regard to head office operations that the implications of Bill 1 give great concern. From the dialogue and the speeches heard concerning Bill 1 and head offices, we have come to the conclusion that there are some fundamental considerations which require further exploration. We would like to deal with these as clearly and objectively as possible.

The Personnel of a Head Office: Geographical Characteristics

17. We have encountered the assumption — sometimes explicit, more often implicit — that the ethnic or linguistic characteristics of a head office should be a reasonably close reflection of the ethnic and linguistic characteristics of the population in its immediate location. This assumption appears to underlie many sections of Bill 1. We submit that this assumption is not practical for national or international head offices.

18. It is fundamental to the economic viability of any organization that there be upward mobility amongst its employees so that the most able can climb upwards in the managerial ranks, consistent with their ability. This not only assures the organization that its managerial positions are staffed with its most able people, but it provides a necessary incentive to employees to excel in their jobs, as this is the basis of promotion. In an organization such as Canadian Pacific, this implies the head office should, generally, be staffed with people who have "worked their way to the top" from within the

entire organization. It follows that, as a general rule, the geographic origin of those who fill the managerial positions at head office will broadly parallel the geographic distribution of the organization's activities.

19. One can thus see the difference between a national or international business and one which is essentially local. If a firm operates in only one province, then it is quite reasonable to expect a fairly high percentage, if not all, of those who perform head office functions to have been recruited in that province. A national or international head office, on the other hand, if it is to be fair to employees and its owners, must draw its executives from all of its employees across Canada and beyond.

20. Clearly, there are many factors that have to be taken into account before a company's hiring and promotion policies can be judged as being fair or unfair from this geographical point of view. These include the output and the mix of university graduates in different provinces during the 1930's, 1940's and 1950's, when today's senior managers graduated from university, as well as the willingness of individuals to relocate.

21. To explore this further, we have looked at the top 43 people in the Canadian Pacific head office in Montréal. As expected, the head office executive group is very highly trained and mobile and with a wide diversity of geographic origin. The average member of the group is slightly over fifty-two years of age and overall ages range from the youngest member at thirty-four to the eldest at sixty-four. The typical executive has twenty-three years of service with Canadian Pacific but twenty-four of them had other business experience, ranging up to thirty-eight years, prior to joining the Company. More than three-quarters of the members of the group are university graduates and more than one-third of the group have post-graduate university education.

22. Thirty-eight of the forty-three CP executives were born in Canada, the balance having their

birthplaces in the United States and in Europe. Of those born in Canada, seven of the ten provinces are represented, in particular Ontario and Manitoba where a total of twenty-five originated. Five were born in Québec.

23. The degree of mobility within this group is indicated both by their respective pre-employment and employment histories. To begin with, eighteen, or more than forty percent, completed their formal education outside the province, state or country of their birth while only nineteen of the thirty-eight born in Canada, began their careers with Canadian Pacific in the province of their birth. While with Canadian Pacific, eighteen of these executives have been transferred geographically at least once before moving to Montréal. Eleven of those individuals have been transferred three or more times, with one having transferred thirteen times. Only three members of the present Canadian Pacific executive group were born, completed their education and have spent the whole of their careers until now in Québec.

24. It is thus clear that Canadian Pacific is not managed by a class of self-perpetuating English-speaking executives who have been living in Québec, particularly in Montréal, for generations. In fact, a very small fraction of our top executives are Québec-born Anglophones. Most have come to the Province as adults and came to continue their careers with Canadian Pacific. Top managers of the Canadian Pacific group of companies are now and always will be drawn from across Canada and the world.

25. The situation with regard to groups of specialists in fields such as technical research and computer systems offers another useful perspective and is one we particularly appreciate by reason of the international operations of our consulting company, Canadian Pacific Consulting Services Ltd. For such a group of highly skilled specialists, success is measured by their ability to market their unique talents and experience. The staffing of such an enterprise, therefore, must reflect the

broadest possible spectrum of education and experience. Confining recruitment in such an enterprise to any specific geographic area or to the graduates of only a few universities would effectively destroy its international competitiveness.

26. The conclusion that follows from these observations is that no company which is national or international in scope and which wishes to be fair to its employees and shareholders can accept a policy that suggests that all or most of the personnel of its head office must be recruited locally.

The Language of the Head Office

27. We know of no practicable alternative to the use of English as the common language of the head office of any company whose employees, customers, operations, suppliers and sources of technology and know-how are widely distributed over the North American continent and abroad. The need to use English derives not only from the fact that head office personnel must be drawn from across the country and abroad but also from the need to send and receive masses of communications of both a technical and commercial nature and to deal with a multiplicity of problems in English.

28. The relevant question then becomes — what is the significance of having head offices of national and international enterprises located in Québec? To be more specific, the questions to be considered are: first, does the presence of national or international head offices, which must operate very largely in English, promote the economic well-being of people living in Québec, whether Francophone or Anglophone and, second, does the presence of such offices promote or hinder the linguistic and cultural aspirations of Francophones?

The Economic Well-Being of the People of Québec

29. Head offices constitute one of the important "basic industries" in this Province; "basic" in the sense that they do not depend for their existence

on the local Québec market as do secondary industries, such as supermarkets. Basic industries are "population-attracting", as opposed to secondary industries which are "population-attracted." The existence of a head office in Québec will have the same economic consequences, direct and indirect, as the existence of any other basic industry in Québec, such as the export-oriented pulp and paper or iron ore industries. A head office not only generates direct employment but also indirectly generates spending by its employees on the whole range of secondary "population-attracted" industries. A basic "population-attracting" industry indirectly supports lawyers, grocery stores, clothing stores, doctors, barbers, taxi drivers, construction workers, printers, clerks, public servants, etc.

30. The economic concept which measures the total impact of the gain or loss of a basic industry is the employment multiplier. Its value depends on the size and degree of economic self-sufficiency of the relevant geographic area. This can be explained best by a simple example, such as a mine which is developed in a wilderness area and which gives direct employment to 900 miners and to 100 full-time tradesmen who are not employees but devote all their time to the mine. In turn, this results in a new town being built which gives rise to perhaps another 1,000 jobs in that town to carpenters, garage mechanics, shopkeepers, school teachers, municipal employees, and so on. If we confine our attention to employment in the mining town in our example, we are led to the conclusion that every job in the basic population-attracting industry provides perhaps one job in the population-attracted industries. This idea can be expressed by saying that the employment multiplier is of the order of 2. In addition, a mine, or a head office, or any other basic activity also creates jobs outside the town in which it is located. Jobs are created at the power sites where electricity is produced; they are created in the surrounding countryside in dairies and market gardens that provide milk and vegetables to the town; jobs are created in the seats of government

for the ever-increasing number of public servants who collect taxes and perform the other functions of government. Obviously, the larger and more economically self-sufficient the territory to which the employment multiplier is to be applied, the larger the numerical value of the relevant multiplier.

31. An examination of the economic studies dealing with the employment multiplier leads to the conclusion that for every direct job in the Province created by a basic population-attracting industry, such as a head office, somewhere between one and two additional jobs are created in the secondary population-attracted industries; that is to say, the employment multiplier lies between 2 and 3. As stated previously, the Canadian Pacific head office in Montréal employs directly some 2,600 people. In addition, the non-personnel outlays by the head office, covering such items as office equipment and supplies, local taxes, communications, outside consultants, auditors, temporary office help, entertainment, etc. amount to some $12 million annually and generate at least another 300 jobs in Québec. Thus, total direct employment created by the Canadian Pacific head office in Montréal amounts to some 2,900 jobs. Applying the employment multiplier, an additional 2,900 to 5,800 Québec jobs in secondary industries depend on this head office.

32. Therefore, between 5,800 and 8,700 jobs in the Province, including both direct and indirect effects, depend on the Canadian Pacific head office in Montréal.

33. In mid-1976, in Québec, there were approximately $2^1/_4$ persons in the population for every member of the labour force. This implies that the 5,800 to 8,700 jobs dependent on the location of the Canadian Pacific head office in Montréal support a total population in Québec of between 13,000 and 19,500 people. These are not insignificant numbers.

The Ethnicity of the Québec Population Affected

34. It is sometimes suggested that all, or most, of the people who benefit from the location of head

offices in Québec are Anglophones. This is not so. It is true that the majority of senior managers in the head office group of Canadian Pacific are Anglophones; the reasons for this were explained earlier. On the other hand, the members of the large support staff in our head office more closely reflect the location of the head office in Montréal. Overall, some 29% of the people who are directly employed in our head office were born in Québec and speak French. Most of these live in a Francophone environment, have Francophone spouses and send their children to French language schools. With respect to the indirect employment generated by the head office, it can be expected that Francophones constitute about 80% of this group, simply on the basis of the linguistic characteristics of the labour force in Québec.

35. Combining the direct and indirect jobs, we find that somewhere between 57% and 65% of the total number of jobs in Québec supported by the Canadian Pacific head office are held by Francophones. In absolute terms, this represents between 3,300 and 5,600 Francophone employees. The Canadian Pacific head office currently supports more Francophones than Anglophones in the Province of Québec.

36. We fail to see how the French language or the French culture can do anything but benefit from the existence of so many Francophone jobs in Québec. The location of the Canadian Pacific head office in Montréal makes possible the sale of more, not fewer tickets to French plays; more, not fewer, French books. It makes it possible for more, not less, business to be conducted in French and more, not less, money is available to the Québec government to support linguistic and cultural affairs. The location of head offices in Québec is, in our view, highly beneficial economically, linguistically and culturally to the aspirations of Francophones who live here.

Specific Proposals

37. Canadian Pacific does not wish to leave Québec. Our Company has been headquartered in

Montréal for 96 years. We are very much part of Québec's history and we feel we have made a considerable contribution to Québec. However, we feel that certain amendments are required to Bill 1 if this historical and mutually beneficial relationship is to continue to flower. These relate to the provisions respecting the language of instruction and the francization of business operations.

38. With regard to the language of instruction in the schooling system (Title 1, Chapter VIII) we believe that the privilege long enjoyed in Québec of all residents to choose the language of education for their children should be maintained and that Bill 1 should be amended to reflect this principle. Our reasoning is pragmatic. From a corporate standpoint, it must be possible for promising executives to move to their head offices for an indefinite period, without disrupting the education of their children. It must be possible to recruit personnel directly into head office positions, without disrupting the education of their children. It must be possible to recruit or cycle aspiring people anywhere in our organization and offer them the opportunity to progress to head office without disrupting the education of their children. The effective management of our business requires this flexibility.

39. With regard to francization provisions of Bill 1, we have pointed out earlier in this submission that English remains the common language of our head offices and that head office personnel must reflect the geographical diversity of the Company's operations. We therefore request that the Bill be amended to provide for an exemption for head offices of national and international organizations located in Québec.

Concluding Comments

40. In our view, the adoption of a policy which would at best simply tolerate the continuance of head offices of national and international enterprises in Québec would be shortsighted. A policy more in the interests of the Québec economy and the French language and culture would appear to

result from an attempt to ensure that Montréal, where such enterprises are concentrated, remains an attractive city in which both Francophones and Anglophones can feel at home. Montréal has a unique "ambiance" amongst international cities, an ambiance that should be preserved.

41. A policy which countenances bilingualism would encourage head offices and related activities such as consulting firms to remain and expand in Montréal. Such a development can have several desirable consequences, five of which are listed below.

1. It would provide more jobs for Francophones than for Anglophones, and would support, not prevent, the achievement of cultural and linguistic objectives.

2. It would strenghten the economy, increase government revenues, and thus provide revenue for the support of social and cultural objectives.

3. It would make it possible for Francophones to move up in large North American enterprises while remaining in an environment in which it is easy to maintain personal and family cultural identity.

4. It would provide more challenging, higher-level jobs for Francophones. Companies, under pressure, might otherwise resort to a truncating of their Québec operations, leaving little more than branch plants. The branch-plant problem is serious enough for all of Canada; it would be even more serious for Québec.

5. Head offices and other similar businesses in Québec provide a practical business and linguistic training ground for Francophones, which will become ever more important if English is de-emphasized in the everyday lives of Francophones. There have been and always will be management positions in social, educational, governmental, religious and small

business organizations for which the absence of a knowledge of English is no disadvantage. However, for businesses of any size which are geared to the markets and technology of North America, a knowledge of English and a first-hand knowledge of North American business practices will be absolutely essential. A Francophone can now obtain the requisite training and practical experience in Montréal. In the future, will he or she have to move to New York or Toronto for this purpose?

42. The specific amendments we have proposed to Bill 1 would do much to enable the foregoing to be accomplished. However, we do not wish to leave the impression that a few technical changes in the statute will establish harmony into the indefinite future. People respond to perceived reality and a head office consists of people, nothing more, nothing less. If employees, both actual and potential, perceive that living in Québec may become unpleasant, that they may be treated with hostility, that the education of their children may be fraught with difficulties, that their investments in their homes may be constantly at risk and that their children, when they mature, must automatically look elsewhere to find employment or live satisfying lives, technical amendments to statutes will have limited value.

43. What is required is an acceptance by the Government of Québec of the reality that the location of head offices of national and international organizations in Montréal is helpful to the economic, cultural and linguistic aspirations of Québec and that the employees of such organizations can be not only useful and productive but also desirable residents.

44. Canadian Pacific understands and respects the natural desire of the French-speaking majority of this Province to develop and protect its linguistic and cultural identity and it is prepared, where it can, to co-operate in that endeavour. In the same manner, we are hopeful that the political leaders of the Province will recognize and under-

stand the economic and commercial realities facing our head office in Montréal. If such a spirit of co-operation prevails, constructive progress can be made.

All of which is respectfully submitted.

Ian D. Sinclair
Chairman & Chief Executive Officer

Windsor Station, Montréal, Québec H3C 3E4
Telephone (514) 861-6811, Telex 05-25857

Canadian
Pacific
Investments
Limited

JUL 22 1977

n D Sinclair
airman and
ief Executive Officer

July 14, 1977

TO THE SHAREHOLDERS:

I am enclosing, for your information, a copy of the Brief of Canadian Pacific to the Parliamentary Committee on Education, Cultural Affairs and Communications, with respect to Bill No. 1.

While hearings on the Bill were discontinued before we were asked to appear and present the Brief, it was filed with the Committee and I thought you might be interested to read it.

Ian D Sinclair

Chairman and Chief Executive Officer

Contents

Stock Transfer Agents

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S. B3J 1V7;
Brunswick House,
1 King Street, Saint John, N.B. E2L 1G1;
630 Dorchester Boulevard West,
Montreal, P.Q. H3B 1S6;
Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5W 1P9;
287 Broadway,
Winnipeg, Manitoba R3C 0R9;
1862 Hamilton Street,
Regina, Saskatchewan S4P 2B8;
700 The Dome Tower, Toronto-Dominion Square, 333 - 7th Avenue S.W.,
Calgary, Alberta T2P 2Z1;
Royal Trust Tower, Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street, New York, New York 10005

Deputy Secretary,
50 Finsbury Square,
London EC2A 1DD, England

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1977 was 68,819.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	70.78%
United States	14.01
United Kingdom	7.44
Other Countries	7.77
	100.00%

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and London, Eng. Stock Exchanges

Shareholders having inquiries should write to:
J. C. Ames, Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada,
H3C 3E4

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Canada H3C 3E4

To the Shareholders

In 1977 the Company's consolidated net income reached a record level of $247.0 million. This was nearly double the earnings of five years ago and was $56.5 million, or 30%, higher than in 1976. Per Ordinary share, net income amounted to $3.41, an increase of 79¢ over 1976.

Summarized Statement of Income of Canadian Pacific Limited

	1977	1976	Increase or (Decrease)
	(in millions)		
Net income from:			
CP Rail	**$ 54.8**	$ 51.1	$ 3.7
CP Trucks	**0.8**	1.8	(1.0)
CP Telecommunications	**2.6**	2.0	0.6
CP Air	**3.3**	(9.8)	13.1
CP Ships	**(10.3)**	3.6	(13.9)
Miscellaneous	**7.5**	15.1	(7.6)
CP Investments Limited	**170.0**	117.8	52.2
Equity in income of subsidiary not consolidated	**11.1**	8.9	2.2
Income before extraordinary item	**239.8**	190.5	49.3
Extraordinary item	**7.2**	—	7.2
Net income	**$247.0**	$190.5	$56.5
Per Ordinary share:			
Income before extraordinary item	**$3.31**	$2.62	$0.69
Net income	**3.41**	2.62	0.79
Dividends	**0.95**	0.86	0.09

Dividends of 95¢ per share on the Ordinary stock were 9¢ more than in 1976; this increase was within the limits allowed by the Anti-Inflation Board. Of the 1977 dividends, 48.5¢ per share was the proceeds of dividends from Canadian Pacific Investments Limited, compared with 45¢ in 1976.

During the year CP Limited instituted a shareholder dividend reinvestment plan effective with the first dividend on the Ordinary capital stock declared after May 4, 1977.

Extraordinary income of $7.2 million in 1977 represented the Company's share of the net gain by CP Investments on the sale of CanPac Leasing Limited in April.

In many respects 1977 was an unlikely year for a new record in earnings. It was a year of slow economic growth and accelerating price inflation. The increase in Canada's real gross national product was a bare 2.6%, while the average increase in the consumer price index for the year was 8%. This combination of minimal growth and stepped up inflationary pressures had a restricting effect on real disposable income, and hence on consumer spending. Similarly, it had a discouraging effect on business capital investment. The major strength of the economy was in merchandise exports, particularly to the United States, where the growth rate was high enough to sustain a good level of demand for imports of manufactured goods as well as for raw materials. The decline in the value of the Canadian dollar gave added impetus to the export sector by restoring some of the competitiveness it had lost because of relatively greater inflation of wage and other costs in Canada. However, the same decline also raised the prices of imports into Canada, thereby contributing to the rise in the cost of living and to a rise in prices of machinery and parts used in the domestic manufacturing industry.

General economic conditions thus left a great deal to be desired. However, a number of specific situations were favourable enough to enable most of the Company's operations to do better than they had in the previous year, even if earnings in some cases still fell short of providing an acceptable return on investment. The oil and gas interests of Canadian Pacific Investments gave a major lift to earnings, but the year's income flow was also significantly augmented by increased earnings in most of the other areas of that company's activities. In the transportation sector, airline operations were restored to profitability after two years of losses, results of rail operations in both Canada and the U.S. showed improvement, and income was up from telecommunications as well as from container shipping. The only operations that did not trend upward were trucks, whose earnings were lower than in 1976, and bulk shipping and hotels, both of which incurred sizeable losses in 1977.

The Company's earnings achievements were matched by progress in developmental activity to ensure the earnings of the future. PanCanadian Petroleum carried out an extensive exploration program and has been acquiring land for exploration and development in the high potential oil and gas areas of Alberta and northeastern British Columbia. Cominco opened its new ammonia-urea complex east of Calgary. Fording Coal completed a program to increase the capacity of its treatment plant. Pacific Logging planted more than a million trees and fertilized large acreages of forest lands. Dominion Bridge acquired Amtel Inc., a U.S.-based diversified engineering, construction and

manufacturing enterprise. Marathon Realty expanded with new shopping centres, office building projects and industrial buildings. CP Hotels opened its new hotel at Montreal's Mirabel International Airport and took over management of hotels in the Bahamas, in Mexico and in Israel. Chateau Insurance acquired the Canadian business of Great American Insurance Company. CP Rail started construction on a two-tracking program for sections of the main line through the Rocky Mountains to assist in meeting Western Canada's future transportation needs. CP Air ordered four new aircraft. Canadian Pacific Consulting Services undertook new assignments throughout the world and signed a major contract to design a 1,500-km iron ore railway in Algeria.

All the signs suggest that 1978 will be another difficult year for the Canadian and world economies. Government actions to stimulate economic activity are either being taken or are being proposed in a number of countries, including Canada. These will be welcome as long as they do not set in motion a new wave of inflation. Having been badly battered in recent years, business confidence would be further shaken by any threat of a resurgence of high inflation rates. The fairly recent re-discovery by governments of how important such confidence is for sound economic growth may help to influence policies in the direction of restraint.

In the economic circumstances most likely to prevail in 1978, few sectors of the Company will find it easy to achieve growth in earnings over 1977. New labour contracts have yet to be negotiated for pulp and paper, iron and steel and several hotels, in most cases after the phase-out of inflation controls begins. The outcome of such negotiations will be significant. High world inventories could adversely affect prices of such commodities as coal, zinc, pulp and certain agriproducts. The outlook is promising for oil and gas and real estate and generally favourable for the transportation enterprises, except bulk shipping.

The many accomplishments of 1977 would not have been possible without the hard work and dedication of officers and employees and the continuing support of customers. The Directors wish to thank all of them for their contributions.

CP Rail

Net income from CP Rail amounted to $54.8 million, an increase of $3.7 million, or 7.2%, over 1976. This represented a rate of return of 6.7% on net rail investment, compared with 6.3% in the previous year.

Rail revenues for the year were up $123.5 million, or 10.6%, mainly as a result of freight price adjustments and an increase in the volume of export commodities carried. Inflationary pressures contributed to the increase of $119.8 million, or 10.8%, in expenses. Wage rates were up 8.2%, as provided for in the two-year labour contract signed in 1976, fuel prices were nearly 17% higher, and material and other prices increased about 8%. A heavy track maintenance program and an increased freight car repair program also contributed to the year's higher expenses.

The Hall Commission, which was appointed in 1975 to inquire into the rail needs of communities in Western Canada and to examine the total grain handling and transportation system, released its report in 1977. The Commission's recommendations cover a broad area, and the impact of some of them cannot be readily assessed without knowing more about the manner in which they might be implemented.

Following the release of the Hall report, the Federal Government appropriated $100 million for the rehabilitation in 1977 and 1978 of grain-related Prairie branch lines. Of this amount, CP Rail was allocated $42 million. These funds do not, in any way, compensate the railways for the grain-related losses as determined by the Snavely Commission on the costs of transporting grain by rail.

During 1977 CP Rail began construction at two of three locations where second tracks are to be built to reduce critical westbound ascending grades and curvature on the heavily used mainline between Calgary and Vancouver. Work will begin at the third location when the necessary approvals are given by the Canadian Transport Commission. When completed in 1980, the project will assist in meeting the future transportation needs of Western Canada's growing resource and other industries.

Negotiations are continuing between the Federal Government, VIA Rail Canada Inc. and CP Rail and CN Rail, on the terms and conditions under which VIA is to assume responsibility for the provision and management of inter-city passenger train services.

CP Trucks

Net income from CP Trucks, at $772,000, was down $1.0 million from 1976. The reduction was mainly due to the Trucking division, where revenues were adversely affected by the continued economic slowdown and resulting intensive competition in the industry for a relatively static volume of traffic. Although further steps were taken during the year to curtail unprofitable operations in Western Canada, to improve operating efficiency, and to lower administrative costs, expenses could not be reduced sufficiently to overcome the weakness in revenue growth.

Earnings of the Express division were down from 1976, notwithstanding that CanPar, the parcel delivery service inaugurated late in 1976, earned a modest profit in 1977, its first full year of operations. The Bulk and Specialized Trucking division generated an increased operating profit in 1977.

The outcome of current hearings before the Ontario Highway Transport Board to determine whether a U.S. parcel delivery company will be granted operating rights in Canada will markedly affect the future operations of the Express division.

CP Telecommunications

Net income from telecommunications amounted to $2.6 million for the year, $592,000 more than in 1976. Revenues increased $8.9 million, due both to volume growth, primarily in telex and leased services, and to rate increases. Expenses rose $8.3 million, principally as a result of higher costs for wages and benefits, and materials.

The application filed by CP Telecommunications with the regulatory authority in 1976 seeking the right of interconnection with the local switched distribution facilities of Bell Canada has drawn wide support from user firms and associations. CN Telecommunications became a co-applicant in late 1977. A public hearing began at the end of February 1978.

In 1978 CP Telecommunications will aggressively market Infoswitch, its new switched digital data service designed to provide the data communications market with a lower cost service that is superior in performance as well as broader in scope.

CP Air

1977 was a year of marked recovery for CP Air, whose results improved from a loss of $9.8 million in 1976 to a profit of $3.3 million in 1977. The profit earned was not sufficient, however, to justify resumption of dividends, which ceased in the second half of 1975.

Revenues increased $44.4 million, or 12.7%, principally as a result of fare increases. The rise in expenses was held to $31.3 million, or 8.7%, through stringent control of costs.

To overcome the effects of rapidly rising costs in the face of only minimal traffic growth, adjustments were made in operations early in 1977. The company's fleet was reduced by the sale of four Boeing 727-100 aircraft in the first half of the year. Early in 1978 another aircraft, a DC-8, was sold, leaving a fleet of 24. Flight frequencies were reduced, particularly on short haul sectors, in an effort to curtail fuel expenses, landing fees and other operating costs. Staff levels were again reduced during the year.

During 1977 the Federal Government announced an easing of the limitation on competition by CP Air with the Government-owned airline on transcontinental services and allowance of greater scope for Western turnarounds for CP Air flights. Since 1969 CP Air has been limited to supplying a 25% share of the capacity in transcontinental service. Under the new policy this percentage will increase slightly, as CP Air is to be allowed to provide services to carry 35% of any growth in traffic on this route in 1978 and 45% in 1979.

Despite many complex problems faced by the airline industry, CP Air should continue to show improvement in results in 1978. While only moderate traffic growth is expected, the company should benefit from the schedule revisions that have produced a better matching of capacity with demand. However, the continuing escalation of domestic fuel prices and delays in obtaining fare increases needed to offset rising costs remain matters of concern.

A major expression of confidence in CP Air's long term prospects was the ordering in the latter part of 1977 of two new DC-10-30 wide bodied aircraft and two Boeing 737's. One DC-10-30 is to be delivered in 1978 and the other three aircraft in 1979. Orders will be placed in March 1978 for a further two DC-10-30's for delivery in 1980 and 1981 and an additional Boeing 737 for delivery in 1979.

A copy of the financial statements of CP Air for 1977 can be obtained by writing to its Secretary at Vancouver International Airport, Vancouver, B.C. V7B 1V1.

CP Ships

A net loss of $10.3 million was incurred by CP Ships in 1977, compared with income of $3.6 million in 1976. This deterioration reflected poor results from the tanker and bulk carrier operations of CP (Bermuda).

The bulk shipping market remained in depression for the fourth successive year, and this was the main reason for CP (Bermuda)'s loss of $13.2 million in 1977, compared with a profit of $1.1 million in 1976. Employment for new vessels, as well as for several that were re-delivered from long term charters, has had to be found in a market where nearly a quarter of the world's tanker tonnage is surplus to requirements and freight rates in the tanker and bulk trades are at unremunerative levels.

The current state of the shipping market is not likely to show significant improvement in 1978. Recovery of dry cargo rates depends on an upturn in world steel production and further expansion in world trade. The expected slow growth in crude oil shipments will limit recovery in the crude tanker market. However, the company has four of its five crude tankers on charter until the 1980's. The market for the company's product tankers is not expected to strengthen significantly in 1978.

Net income from CP Steamships, Limited amounted to $2.7 million, compared with $2.4 million in 1976. Earnings benefited from an increase of 22% in the volume of containers carried. This was due to some growth in North Atlantic trade and to traffic diverted from strikebound U.S. east coast ports in the latter months of the year. Largely offsetting these favourable factors were higher costs due to serious imbalances between westbound and eastbound traffic flows throughout the year, and competitive pressures which continued to depress rate levels.

While volumes are expected to be reasonably maintained in 1978, the possibility of erosion of rates due to competitive pressures is cause for some concern.

CP Steamships is planning to move its Quebec City container facilities to Montreal in order to adapt to developments in the North Atlantic container market.

Miscellaneous Income

Miscellaneous income was down $7.6 million from 1976, when there was a gain of $8.4 million on the sale of land formerly occupied by railway facilities in Quebec City.

CP Investments Limited

Net income from CP Investments Limited, before the extraordinary item of $7.2 million, amounted to $170.0 million, compared with $117.8 million in 1976.

Summarized Statement of Net Income from CP Investments Limited	**1977**	1976	Increase or (Decrease)
	(in millions)		
Oil and gas	**$110.2**	$ 74.1	$36.1
Mines and minerals	**41.0**	32.4	8.6
Forest products	**10.3**	5.2	5.1
Iron and steel	**23.0**	13.5	9.5
Real estate	**11.6**	10.4	1.2
Hotels and food services	**(4.7)**	—	(4.7)
Finance	**2.5**	2.3	0.2
Other operations	**4.3**	0.8	3.5
Investment income	**6.5**	1.5	5.0
	204.7	140.2	64.5
Interest of outside CPI shareholders	**34.7**	22.4	12.3
Net income to CP Limited before extraordinary item	**$170.0**	$117.8	$52.2

A copy of the 1977 annual report of Canadian Pacific Investments Limited can be obtained by writing to the Secretary of that company at Suite 1900, Place du Canada, Montreal, Quebec H3B 2N2.

PanCanadian Petroleum Limited had a record year in 1977. This was due to the combination of higher volumes of production and increased prices of oil and gas. Crude oil production was up 13% over 1976. This was the result of a full year of sales of domestic crude in Eastern Canada through the Sarnia to Montreal pipeline and of the National Energy Board's decision to allow export of surplus heavy oil. Production of natural gas rose 18%, because PanCanadian was able to secure significant long term contracts before the current Canadian gas surplus developed. Continuing its land acquisition program, PanCanadian purchased Crown lands in Alberta and northeastern British Columbia. The company is active in the West Pembina area of Alberta, where it has acquired land and is currently participating in the drilling of two exploratory wells. As in previous years, PanCanadian was active in southern Alberta, where extensive gas finds and two oil discoveries were made during 1977. Activities outside Canada during the year included the drilling of successful oil wells in Mississippi and Texas and the acquisition of an interest in a producing gas field in Texas.

Cominco Ltd. had higher earnings than in 1976, and income of CPI from its 53.9% share amounted to $31.4 million, up from $24.4 million in 1976. The increase was largely attributable to higher prices and sales volume for lead, gold, silver and electric power and the exchange value of the Canadian dollar in relation to the major currencies in which Cominco does business. Chemical fertilizer production was increased with the opening of the new ammonia-urea complex east of Calgary. In contrast to these favourable developments were a weak zinc market, which required continuation of curtailment of production to control inventories, and excessive provincial taxes and royalties that resulted in losses for the potash mine in Saskatchewan. During 1977 production began at the 47%-owned Rubiales zinc-lead mine in Spain.

Fording Coal Limited earned $11.1 million, compared with $9.0 million in 1976. CPI's share in 1977, including its equity in Cominco's 40% share, amounted to $9.0 million. CPI also received ownership payments from Fording of $2.3 million, compared with $2.0 million in 1976. The earnings improvement reflected an increase in sales volume over 1976, when a strike closed mining operations from May through to September. After the close of business on December 31, 1977, Fording Coal and CanPac Minerals were amalgamated under the name Fording Coal Limited.

The Great Lakes Paper Company, Limited had significantly improved income over 1976, when operations were affected by the final two months of the mill workers' strike. Other factors were increased shipments of all products, but especially pulp, and the exchange premium on the U.S. dollar. CPI's 55.7% share of the income of Great Lakes amounted to $8.1 million, compared with $2.7 million in 1976.

Pacific Logging Company Limited earned $2.2 million in 1977, compared with $2.5 million in 1976, which included a gain of $1.5 million on disposal of an investment. The marked improvement in income before the non-recurring gain largely reflected better log selling prices.

The Algoma Steel Corporation, Limited which in 1976 incurred a loss before income tax credits and its equity in the income of Dominion Bridge, earned a profit before these items in 1977. This turnaround reflected higher steel production and shipments, improved product mix and operating improvements. CPI's 51.5% share of Algoma's earnings amounted to $15.8 million in 1977, an increase of $5.5 million. Despite an increase in Algoma's sales due to higher volume and increased prices, profit margins remained unsatisfactory because market conditions prevented prices from being raised sufficiently to cover higher expenses. During the year Algoma experienced major labour disruptions at its coal mines in the Eastern United States and at the Tilden iron ore mine in Michigan.

Dominion Bridge Company, Limited increased its earnings in 1977. In addition to CPI's interest in Algoma's 43.2% holding of Dominion Bridge shares, it directly owned shares representing a 6.0% interest at year end. Additional shares were purchased subsequently which raised the latter to 7.3%.

Steep Rock Iron Mines Limited, 68.8%-owned, contributed $5.0 million to CPI's income, compared with $2.5 million in 1976. The chief factors accounting for the increase were consolidation of Steep Rock results for the full year compared with ten months in 1976, good operating conditions, higher shipments and the U.S. dollar exchange premium. Following completion of an investigation of the potential of an iron ore deposit at Bending Lake, Ontario, it was announced that development of this property was not possible at present because of the current iron ore surplus. Steep Rock will probably close pit operations at Atikokan later this year or early 1979 when the ore will be exhausted. However, enough iron ore will be stockpiled to continue pellet production until late 1979.

Marathon Realty Company Limited had record earnings in 1977 largely because of increased contributions from shopping centres and office buildings. During the year a new shopping centre was opened in Ottawa, and a shopping centre was purchased in Toronto. At year end three office buildings were under construction — in San Francisco, Toronto, and Burnaby, B.C. Projects on which studies are under way include an office building in Calgary, an office and retail development in Kitchener, Ontario, an office complex in Toronto and an office building in Portland, Oregon.

CP Hotels Limited reported a loss of $4.7 million, much of which represented charges relating to development projects which are no longer expected to be pursued. The poor operating results reflect difficulties being encountered by the whole Canadian hospitality industry. During the year Le Château de l'Aéroport at Montreal's Mirabel International Airport was opened, and construction progressed on the hotel and adjoining airline catering facility at the new Calgary International Airport, with completion set for early 1979.

Chateau Insurance Company, which was consolidated for the full year compared with five months in 1976, accounted for an increase in income from the activities reported under Finance. However, the effect of this was largely offset by the absence of income from CanPac Leasing Limited after it was sold on April 1, 1977.

Other Operations showed a significant increase due to the acquisition by CanPac AgriProducts Limited of Baker Commodities, Inc. on November 30, 1976 and its consolidation for the full year 1977.

Investment income was up in 1977, mostly as a result of gains on sales of investments.

For the Directors,

I. S. Burbidge
President

Chairman and
Chief Executive Officer

Montreal, March 13, 1978.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy
Canadian Pacific Limited (CPL) has organized its enterprises into two distinct groups. CPL, directly and through subsidiaries, carries on the transportation enterprises. Canadian Pacific Investments Limited (CPI), in which CPL held 82.37% of the common shares (82.30% of total voting shares) at December 31, 1977 (84.05% and 83.13% respectively at December 31, 1976), is the vehicle through which all other operations are carried on.

The consolidated financial statements include the financial statements of CPL and all subsidiary companies with the exception of those of Soo Line Railroad Company, which operates a railroad in the Northwestern United States and is regulated by the Interstate Commerce Commission. CPL accounts for its investment in this company, which is 56% owned, by the equity method, and its summarized financial information is presented on page 18.

The statement of consolidated income on page 10 is designed to present clearly CPL's income from each of its two major operating groups. Income from transportation is further segregated between the major functions — rail, trucks, telecommunications, air and ships. A similar breakdown of income by function is presented on page 14 for the operations carried on through CPI. The significant accounting policies of each group are described below, and should be read in conjunction with the financial statements, the other financial information and the notes to consolidated financial statements.

Foreign exchange
Items in foreign currencies have been translated into Canadian dollars at current rates, except for properties and related depreciation, investments, long term debt and debenture and capital stocks, for which historical rates have been used. Gains or losses on exchange translation are included in or charged to income.

Pensions
In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Income taxes
The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Transportation

Income reporting by function
As explained above, CPL operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, are departments of CPL. The remaining profit centres CP Trucks (Canadian Pacific Transport Company, Limited), CP Air (Canadian Pacific Air Lines, Limited) and CP Ships (Canadian Pacific Steamships, Limited, Canadian Pacific (Bermuda) Limited and CanPac International Freight Services Limited) are operated through wholly-owned subsidiary companies.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Rent for leased railroads and interest on consolidated debenture stock are assigned to CP Rail, while other interest paid by CPL is allocated to CP Rail, CP Telecommunications and miscellaneous income as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

CPL's income taxes are allocated to CP Rail, CP Telecommunications and miscellaneous income on the basis of accounting income as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties
Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track material replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for Class 1 Common Carriers by Railway of the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used are as authorized by the Canadian Transport Commission; for telecommunications properties, the rates used are as authorized by the Canadian Radio-television and Telecommunications Commission. When depreciable property is retired or otherwise disposed of, the total book value (less net salvage) is charged to accumulated depreciation.

Estimated service lives used for principal categories of assets are as follows:

Road diesel locomotives	20 years
Railway freight cars	30 years
Ships	20 to 25 years
Aircraft	12 to 15 years
Telecommunications equipment	7 to 22 years
Trucks	8 to 12 years

Non-Transportation

Income reporting by function

The non-transportation activities are carried on by CPI through its various subsidiary companies. These, classified by line of business, are as follows:

		Percent owned by CPI
Oil and gas	PanCanadian Petroleum Limited	87.10%
Mines and minerals	Cominco Ltd.	53.91%
	Fording Coal Limited	60% CPI and 40% Cominco
	CanPac Minerals Limited	60% CPI and 40% Cominco
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	55.69%
Iron and steel	The Algoma Steel Corporation, Limited	51.46%
	Steep Rock Iron Mines Limited	68.83%
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	Chateau Insurance Company	99.96%
Other operations	CanPac AgriProducts Limited	100%
	Commandant Properties, Limited	100%

Algoma Steel has a 43.23% interest and CPI a 5.98% interest in Dominion Bridge Company, Limited, which is accounted for by the equity method. The equity in net income of Dominion Bridge is included in sales and operating revenue of Iron and Steel.

Steep Rock supplies iron ore pellets to Algoma Steel. In reporting the results of iron and steel operations in the analysis of CPI's operations on page 14, such sales ($35,633,000 in 1977 and $27,482,000 in 1976) have been eliminated from sales and operating revenue and from expenses. Inter-company interest charges, amounting to $29,632,000 in 1977 and $27,867,000 in 1976, have not been eliminated in the analysis of CPI's operations in order to present fairly the results by activity. CPI's net income is not affected by this practice. Interest has been eliminated from CPI revenues and expenses in the CPL Statement of Consolidated Income on page 10. There are no other significant inter-company charges within the CPI group of companies.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Finished products and work in process of iron and steel operations are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for oil and gas properties
The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties
Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a units-of-production or on a time basis based on the mineral reserves position.

Accounting for iron and steel properties
Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment, mine development and deferred overburden removal costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research, development and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties
Land is carried at cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties
Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under forest products and hotels and food services is capitalized during the construction period.

Statement of Consolidated Income

For the Year ended December 31	1977	1976
	(in thousands)	
CP Rail		
Revenues (Page 15)	**$1,286,392**	$1,162,946
Expenses including income taxes	**1,231,600**	1,111,849
Net income	**54,792**	51,097
CP Trucks		
Revenues	**186,384**	180,829
Expenses including income taxes	**185,612**	179,007
Net income	**772**	1,822
CP Telecommunications		
Revenues	**76,242**	67,379
Expenses including income taxes	**73,640**	65,369
Net income	**2,602**	2,010
CP Air		
Revenues	**395,068**	350,644
Expenses including income taxes	**391,728**	360,446
Net income	**3,340**	(9,802)
CP Ships		
Revenues	**143,197**	118,007
Expenses including income taxes	**153,516**	114,409
Net income	**(10,319)**	3,598
Miscellaneous		
Net income	**7,522**	15,055
CP Investments Limited *(Page 14)*		
Revenues	**2,768,210**	2,069,587
Expenses including income taxes	**2,480,794**	1,869,231
	287,416	200,356
Minority interest	**117,414**	82,555
Net income	**170,002**	117,801
Equity in Income of Subsidiary not Consolidated	**11,151**	8,889
Income before Extraordinary Item	**239,862**	190,470
Extraordinary Item *(Page 15)*	**7,166**	—
Net Income	**$ 247,028**	$ 190,470
Earnings per Ordinary Share		
Income before extraordinary item	**$3.31**	$2.62
Net income	**3.41**	2.62

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	1977	1976
	(in thousands)	
Balance, January 1		
As previously reported	$1,497,580	$1,377,002
Restatement (Page 20)	388	342
As restated	1,497,968	1,377,344
Net income for the year	247,028	190,470
	1,744,996	1,567,814
Increase in minority interest arising from conversion of preferred shares of CPI	8,540	3,882
Commission and expense relating to issuance of preference shares by subsidiaries of CPI	92	1,562
Dividends		
7¼% Preferred shares	2,076	2,251
4% Preference stock	530	521
Ordinary stock (per share — 1977 - 95¢; 1976 - 86¢)	68,079	61,630
Total dividends	70,685	64,402
Balance, December 31	$1,665,679	$1,497,968

Statement of Changes in Consolidated Financial Position

	For the Year ended December 31	1977	1976
		(in thousands)	
Source of Funds	Income before extraordinary item	$ 239,862	$ 190,470
	Add/(Deduct)		
	Depreciation, depletion and amortization	326,157	290,911
	Deferred income taxes	50,689	11,886
	Equity in net income of companies accounted for by the equity method	(29,109)	(22,078)
	Dividends from companies accounted for by the equity method	10,657	8,945
	Minority interest in income of subsidiaries	117,414	82,555
	Funds from operations	715,670	562,689
	Proceeds from sale of subsidiary	71,359	—
	Sales of investments	14,269	6,341
	Issuance of long term debt	271,169	408,847
	Issuance of preference shares by subsidiaries	80,000	110,000
	Proceeds from disposal of properties	34,397	32,284
	Working capital of subsidiaries acquired and consolidated	4,107	18,274
	Working capital deficit of subsidiary sold	18,520	—
		$1,209,491	$1,138,435
Application of Funds	Additions to properties	$ 572,641	$ 729,901
	Additions to investments	85,819	27,961
	Additions to lease receivables (net)	988	16,174
	Investment in subsidiaries acquired and consolidated	6,983	31,571
	Reduction in long term debt	215,147	258,867
	Redemption of preferred shares	2,082	2,309
	Dividends declared	70,685	64,402
	Dividends paid minority shareholders of subsidiaries	45,503	46,708
	Sundries (net)	6,714	15,120
	Increase (decrease) in working capital	202,929	(54,578)
		$1,209,491	$1,138,435

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

	December 31	1977 (in thousands)	1976
Current Assets	Cash and temporary investments, at cost (approximates market)	$ 485,322	$ 329,260
	Accounts receivable	622,378	554,461
	Rail materials and supplies, at cost or less	102,376	95,023
	Other inventories	514,638	445,467
		1,724,714	1,424,211
Insurance Fund, at cost	(approximate market $3,714,000; 1976 — $2,983,000)	4,075	3,571
Receivables under Leases	Amount due under lease agreements after one year	—	101,766
	Less: Deferred income	—	28,983
		—	72,783
Investments	Subsidiary company not consolidated	82,133	76,850
	Portfolio, at cost (market value $203,000,000; 1976 — $212,469,000) (Page 16)	215,333	216,814
	Other (Page 16)	328,041	243,903
		625,507	537,567
Properties, at cost (Page 16)	CP Rail	2,836,142	2,773,032
	CP Trucks	118,735	111,442
	CP Telecommunications	165,895	172,314
	CP Air	399,993	424,845
	CP Ships	506,798	427,800
	Miscellaneous	17,289	13,694
	CP Investments Limited	3,899,164	3,605,166
		7,944,016	7,528,293
	Less: Accumulated depreciation, depletion and amortization	3,073,974	2,865,333
		4,870,042	4,662,960
Other Assets and Deferred Charges		133,081	117,631
		$7,357,419	$6,818,723

Auditors' Report to the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheet of Canadian Pacific Limited as at December 31, 1977 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. For Canadian Pacific Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other consolidated subsidiaries, which include Cominco Ltd., The Algoma Steel Corporation, Limited, The Great Lakes Paper Company, Limited, Steep Rock Iron Mines Limited and Canadian Pacific (Bermuda) Limited and of Soo Line Railroad Company which is accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants, Montreal, Quebec, March 10, 1978.

Consolidated Balance Sheet — Liabilities

December 31		1977	1976
		(in thousands)	
Current Liabilities	Bank loans	$ 63,600	$ 126,542
	Accounts payable and accrued liabilities	779,374	678,860
	Notes and accrued interest payable	289,895	304,041
	Income and other taxes payable	94,091	59,484
	Dividends payable	40,948	38,966
	Long term debt maturing within one year	191,872	154,313
		1,459,780	1,362,206
Deferred Liabilities		45,524	39,600
Insurance Reserve		4,075	3,571
Long Term Debt (Page 17)		1,751,436	1,700,840
Perpetual 4% Consolidated Debenture Stock (Page 18)		292,549	292,549
Minority Shareholders' Interest in Subsidiary Companies (Page 19)		944,037	782,960
Deferred Income Taxes		558,403	513,386
Shareholders' Equity	Preferred shares (Page 19)		
	Authorized — 23,194,474 shares of a par value of $10 each		
	Issued — 2,812,670 7¼% Cumulative Redeemable Series A shares (1976 — 3,022,045)	28,127	30,220
	Preference stock — 4% non-cumulative		
	Authorized — an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
	Issued — £865,019 in amounts of £1 and multiples thereof	4,210	4,210
	— in amounts of $3 and multiples thereof	11,539	11,539
		15,749	15,749
	Ordinary stock		
	Authorized — 100,000,000 shares of a par value of $5 each		
	Issued — 71,662,280 shares	358,311	358,311
	Premium on stock	113,819	113,808
	Other paid-in surplus	119,930	107,555
	Retained income	1,665,679	1,497,968
		2,301,615	2,123,611
		$7,357,419	$6,818,723

Approved on behalf of the Board:
Ian D. Sinclair, Director
F. S. Burbidge, Director

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Other Financial Information

CP Investments Limited — Net Income

	1977	1976
	(in thousands)	
Oil and gas		
Gross operating revenue	**$301,346**	$206,941
Expenses including income taxes	**174,800**	121,908
	126,546	85,033
Interest of outside shareholders	**16,324**	10,969
Net income	**110,222**	74,064
Mines and minerals		
Gross operating revenue	**917,406**	792,258
Expenses including income taxes	**839,534**	727,155
	77,872	65,103
Interest of outside shareholders	**36,808**	32,743
Net income	**41,064**	32,360
Forest products		
Sales and operating revenue	**304,349**	182,130
Expenses including income taxes	**287,819**	174,728
	16,530	7,402
Interest of outside shareholders	**6,252**	2,166
Net income	**10,278**	5,236
Iron and steel		
Sales and operating revenue	**786,632**	606,994
Expenses including income taxes	**740,478**	579,560
	46,154	27,434
Interest of outside shareholders	**23,166**	13,967
Net income	**22,988**	13,467
Real estate		
Gross rentals and other income	**95,784**	81,612
Expenses including income taxes	**84,031**	70,859
	11,753	10,753
Interest of outside shareholders	**184**	330
Net income	**11,569**	10,423
Hotels and food services		
Gross operating revenue	**154,785**	137,469
Expenses including income taxes	**159,481**	137,459
Net income	**(4,696)**	10
Finance		
Gross operating revenue	**61,150**	58,428
Expenses including income taxes	**58,661**	56,129
Net income	**2,489**	2,299
Other operations		
Gross operating revenue	**157,684**	20,391
Expenses including income taxes	**153,399**	19,590
Net income	**4,285**	801
Investment income		
Gross income	**18,706**	11,231
Expenses including income taxes	**12,223**	9,710
Net income	**6,483**	1,521
Income before interest of outside CPI shareholders	**204,682**	140,181
Interest of outside CPI shareholders	**34,680**	22,380
Net income before extraordinary item	**$170,002**	$117,801

Other Financial Information

Rail Revenues

	1977	1976
	(in thousands)	
Freight revenue	**$1,112,099**	$1,006,624
Passenger services	**21,541**	21,708
Other railway	**35,878**	29,862
Coastal steamships	**14,763**	16,690
Government payments	**102,111**	88,062
	$1,286,392	$1,162,946

Income Taxes

	1977	1976
	(in thousands)	
Charged to income before equity in income of subsidiary —		
Current	**$ 156,318**	$ 113,848
Deferred	**50,689**	11,886
	$ 207,007	$ 125,734

Interest Expense

	1977	1976
	(in thousands)	
Long term debt and debenture stock	**$ 171,964**	$ 153,151
Short term debt	**32,637**	35,666
	$ 204,601	$ 188,817

Interest capitalized on funds borrowed to finance capital projects amounted to $8,928,000 (1976 — $17,373,000).

Extraordinary Item

	1977	1976
	(in thousands)	
Net gain on sale of CanPac Leasing Limited after income taxes of $2,051,000	**$ 6,491**	$ —
Reduction in income taxes from application of loss carry-forward	**2,051**	—
	8,542	—
Minority interest	**1,376**	—
	$ 7,166	$ —

Depreciation, Depletion and Amortization Charged to Expenses

	1977	1976
	(in thousands)	
CP Rail	**$ 78,145**	$ 76,454
CP Trucks	**6,422**	5,901
CP Telecommunications	**9,712**	9,634
CP Air	**29,151**	30,441
CP Ships	**21,104**	16,970
Miscellaneous	**529**	402
CP Investments Limited		
Oil and gas	**33,910**	32,174
Mines and minerals	**71,584**	57,688
Forest products	**24,790**	16,097
Iron and steel	**35,664**	34,612
Real estate	**4,758**	4,118
Hotels and food services	**8,369**	5,605
Other operations	**2,019**	815
	$ 326,157	$ 290,911

Other Financial Information

Investment Portfolio as at December 31, 1977

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
			(in thousands)	
Common Stocks				
MacMillan Bloedel Limited	2,849,600	13.40	$ 82,560	$ 52,005
MICC Investments Limited	333,900	5.84	1,530	3,172
Norcen Energy Resources Limited	271,700	1.20	3,804	5,130
Rio Algom Limited	1,331,956	9.86	30,823	36,296
TransCanada PipeLines Limited	4,732,457	12.03	56,203	72,170
Union Carbide Canada Limited	825,300	8.25	18,375	14,236
Other			6,548	5,903
			199,843	188,912
Preferred Stocks			7,134	5,866
Bonds, Debentures and Notes			8,356	8,222
			$215,333	$203,000

Other Investments

	1977	1976
	(in thousands)	
Dominion Bridge Company, Limited, at cost plus equity in undistributed net income	**$ 95,972**	$ 74,400
Others, at cost:		
Tara Exploration and Development Company Limited	**26,903**	26,903
Bethlehem Copper Corporation	**41,310**	4,825
Panarctic Oils Ltd.	**36,932**	33,007
Tilden Iron Ore Company	**25,331**	19,811
Northern Alberta Railways Company	**25,340**	25,340
The Toronto Terminals Railway Company	**9,182**	9,182
Other	**67,071**	50,435
	$328,041	$243,903

Properties and Accumulated Depreciation, Depletion and Amortization

	1977			1976
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail*	$2,836,142	$1,360,972	$1,475,170	$1,436,367
CP Trucks	118,735	50,449	68,286	62,690
CP Telecommunications	165,895	78,053	87,842	92,305
CP Air	399,993	186,392	213,601	251,421
CP Ships	506,798	76,020	430,778	369,851
Miscellaneous	17,289	1,532	15,757	12,469
CP Investments Limited				
Oil and gas	708,272	202,376	505,896	431,325
Mines and minerals	1,089,573	420,587	668,986	643,590
Forest products	505,268	178,611	326,657	340,252
Iron and steel	988,283	446,408	541,875	549,635
Real estate	416,594	25,830	390,764	345,866
Hotels and food services	170,977	42,608	128,369	114,025
Other operations	20,197	4,136	16,061	13,164
Total CP Investments	3,899,164	1,320,556	2,578,608	2,437,857
	$7,944,016	$3,073,974	$4,870,042	$4,662,960

*Includes $43,291,000 (1976 — $44,289,000) securities of leased railway companies.

Other Financial Information

Long Term Debt

	1977	1976
	(in thousands)	
Canadian Pacific Limited		
Collateral Trust Bonds		
Six year 8¼%, due 1977	$ —	$ 20,000
Twenty-five year 5%, due 1983	31,536	31,715
Twenty year 8½%, due 1989	6,170	6,288
Twenty-one year 8⅞%, due 1992	48,460	48,500
Twenty year 10.35%, due 1994	74,250	74,250
Twenty year 11¼%, due 1995	60,000	60,000
Equipment Trust Certificates		
5%-10⅛%, due 1979-1992	129,694	104,970
Bank loans and sundry borrowings, due 1978-1985	164,355	174,112
Canadian Pacific (Bermuda) Limited		
Mortgages, due 1978-1985	61,400	30,626
Notes, 8¼%, due 1984	42,481	—
Canadian Pacific Steamships, Limited		
Bank loan, due 1979	4,089	6,417
Canadian Pacific Transport Company, Limited		
Bank loan	6,750	6,003
Canadian Pacific Investments Limited		
Income debentures, 4⅜%-7½%, due 1978-1979	74,200	60,800
Bank loan, due 1978	5,000	5,000
The Algoma Steel Corporation, Limited		
Sinking fund debentures, 5¼%, due 1978	10,000	10,875
Sinking fund debentures, 7⅜%, due 1987	22,800	24,000
Sinking fund debentures, 8¾%, due 1991	32,605	32,695
Sinking fund debentures, 10⅜%, due 1994	50,000	50,000
Sinking fund debentures, 11%, due 1995	65,000	65,000
Notes, 8½%, due 1991	21,500	22,000
Short term — convertible into term loans to 1979	36,722	50,000
Other	15,743	15,562
Canadian Pacific Hotels Limited		
First mortgage sinking fund bonds, 8⅝%, due 1992	19,500	20,000
First mortgage sinking fund bonds, 11⅜%, due 1995	30,000	30,000
Sundry — due 1978-1985	10,311	9,065
Canadian Pacific Securities Limited		
Sinking fund debentures, 9½%, due 1990	22,750	23,500
Sinking fund debentures, 9⅜%, due 1990	37,122	37,600
Sinking fund debentures, 8¼%, due 1993	15,000	15,000
Notes, 9¼%-10⅛%, due 1980-1983	75,000	75,000
Debentures, 10½%, due 1984	30,000	30,000
Bank loan, 7%, due 1979	25,000	25,000
Bank loan, due 1985	3,210	—
Cominco Ltd.		
Sinking fund debentures, 8½%, due 1991	61,740	61,740
Sinking fund debentures, 10⅞%, due 1995	60,000	60,000
Bank loans, due 1978-1985	36,545	34,777
Notes, due 1982-1996	49,224	49,224
Subsidiaries of Cominco Ltd.	55,328	61,843
Fording Coal Limited — bank loans, due 1978	15,000	31,010
The Great Lakes Paper Company, Limited		
Sinking fund bonds, 8%, due 1989	16,430	17,060
Sinking fund bonds, 11¼%, due 1995	35,000	35,000
Debentures, 8¾%, due 1984	20,966	—
Floating rate income debentures, due 1979	31,704	—
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1978-2006	145,686	128,787
Bank loans, due 1978-1983	22,185	26,973
Carried forward	$1,780,456	$1,670,392

Other Financial Information

Long Term Debt
(continued)

	1977	1976
	(in thousands)	
Brought forward	**$1,780,456**	$1,670,392
PanCanadian Petroleum Limited		
Sinking fund secured debentures, 8⅛%, due 1992	**24,250**	25,000
Sinking fund secured debentures, 8¾%, due 1992	**25,000**	25,000
Sinking fund debentures, 9¾%, due 1983	**35,000**	35,000
Bank loans, due 1978-1983	**45,447**	55,429
Steep Rock Iron Mines Limited		
Sundry — due 1978-1981	**9,745**	12,498
Other companies	**23,410**	31,834
	1,943,308	1,855,153
Less: Long term debt maturing within one year	**191,872**	154,313
	$1,751,436	$1,700,840

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $484,603,000 at December 31, 1977 (1976 — $525,134,000).

Of the aggregate bank loans of $417,005,000 included above, approximately $270,882,000 bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

Foreign currency long term debt translated at current rates at December 31, 1977 would be $690,290,000, which is $49,286,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1977 are: 1978 — $191,872,000; 1979 — $218,759,000; 1980 — $112,870,000; 1981 — $160,043,000; 1982 — $115,463,000.

Perpetual 4% Consolidated Debenture Stock

	Sterling	United States Currency	Canadian Currency	Total
	(in thousands)			
Issued	£46,757	$252,500	$297,103	$777,152
Less: Pledged as collateral	—	187,500	297,103	484,603
	£46,757	$ 65,000	$ —	$292,549

Sterling translated at Can. $4.86⅔ to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1977, translated at current rates, the net amount outstanding would be $168,571,000.

Summarized Financial Information of Soo Line Railroad Company (U.S. Currency)

	1977	1976
	(in thousands)	
Income Statement		
Operating revenues	**$217,251**	$189,289
Railway operating income	**$ 31,367**	$ 25,485
Interest income	**2,656**	2,316
Other income — net	**2,530**	2,203
Fixed charges and contingent interest	**(7,551)**	(6,703)
Provision for income taxes	**(10,200)**	(7,100)
Net income	**$ 18,802**	$ 16,201
Canadian Pacific Limited equity in net income (Canadian currency)	**$ 11,151**	$ 8,889
Condensed Balance Sheet		
Current assets	**$ 95,648**	$ 82,639
Investments and special funds	**2,773**	4,636
Net properties	**276,151**	266,211
Other assets and deferred charges	**1,263**	1,475
	$375,835	$354,961
Current liabilities	**$ 53,931**	$ 48,793
Long term debt	**109,197**	105,951
Deferred income taxes	**42,100**	38,900
Other liabilities and deferred credits	**2,553**	2,317
Shareholders' equity	**168,054**	159,000
	$375,835	$354,961

Notes to Consolidated Financial Statements

1. Preferred Shares

The series A preferred shares are redeemable at the Company's option after January 1, 1978 at $10.50 per share on or before January 1, 1981; at $10.25 thereafter and on or before January 1, 1984; and $10.00 thereafter. In addition, shares may be purchased for cancellation at any time subject to certain price restrictions.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A preferred shares, if available at a price not exceeding $10.50 per share plus costs of purchase. The price decreases to $10.25 after January 1, 1981 and $10.00 after January 1, 1984.

In 1977, 209,375 shares were purchased for $2,082,000; in 1976, 251,290 shares were purchased for $2,309,000.

2. Minority Shareholders' Interest in Subsidiary Companies

The minority shareholders' interest in subsidiary companies is comprised as follows:

	1977	1976
	(in thousands)	
PanCanadian Petroleum Limited	**$ 42,603**	$ 30,101
Cominco Ltd.		
$2.00 tax deferred exchangeable preferred shares, series A	**50,000**	50,000
Common share equity	**248,976**	238,637
The Great Lakes Paper Company, Limited	**34,977**	28,724
The Algoma Steel Corporation, Limited		
8% tax deferred preference shares, series A	**60,000**	60,000
Floating rate preference shares	**80,000**	—
Common share equity	**203,903**	190,218
Steep Rock Iron Mines Limited	**12,324**	11,156
Canadian Pacific Investments Limited		
4¾% convertible preferred shares, series A	**934**	13,062
Common share equity	**209,389**	160,306
Other	**931**	756
	$944,037	$782,960

The CPI preferred shares, series A, are redeemable at CPI's option at $20 per share. Each preferred share was convertible at the option of the holder to November 1, 1977 into two common shares.

3. Pensions

At December 31, 1977, there were unfunded liabilities, determined by actuarial evaluations, of $629,000,000 which is being funded by series of equal annual payments ending from 1981 to 1996, and $239,000,000 which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $129,000,000 in 1977 (1976 — $122,000,000).

4. Commitments

The Company and its subsidiaries had placed orders or were otherwise committed to capital expenditures in the amount of $346,000,000.

Commitments for rent for freight cars and locomotives leased for varying periods through to 2002 amount to $106,000,000. Commitments under other long term leases amount to $485,000,000.

A subsidiary of Algoma Steel is participating in a joint venture producing iron ore pellets and is committed to pay its share of production and financial costs and of funds for debt retirement. Annual requirements to service its share of long term debt will average $6,600,000 during the next five years. Algoma Steel has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitments.

An expansion of these production facilities is in progress to be financed by advances from the participants and further long term borrowings. The subsidiary is committed to make its share of advances aggregating an estimated $11,500,000 during the next two years and to provide funds estimated at an average of $15,900,000 per year during the five years commencing in 1980 to service its share of the further long term borrowings. This commitment is currently guaranteed by Algoma Steel.

5. Contingencies

The Company is a defendant in two suits by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, claiming alleged misuse of the assets and also entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and judgment reserved. Counsel are of the opinion that the court's judgment will justify their earlier opinion that these suits could be successfully defended.

At December 31, 1977, PanCanadian Petroleum had a net investment of approximately $32,000,000 (after provision for amortization in 1976 of $8,000,000) in an ammonia plant project. For economic reasons PanCanadian decided in 1977 that the plant should be disposed of and negotiations for its sale are presently in progress on a basis which would not result in any significant loss to PanCanadian.

Notes to Consolidated Financial Statements

6. Restatement

During the year Dominion Bridge Company, Limited changed its accounting from the completed contract basis to the percentage of completion basis. Algoma Steel restated its provision for income taxes as a result of reduction of capital cost allowances previously claimed which thereby reduced certain losses for tax purposes resulting in an increase in the 1976 deferred income tax credit to net earnings. The 1976 figures have been restated to reflect these changes for comparative purposes. The effect of these changes on net earnings in 1977 was immaterial.

In addition, certain other figures for 1976 have been reclassified to conform with the presentation adopted for 1977.

7. Anti-Inflation Legislation

The Company and certain of its subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The production of crude oil and natural gas and the rental of real property are exempt from the guidelines published under the Act.

8. Subsequent Events

In February 1978, Canadian Pacific Limited issued U.S. $25,000,000 of 8⅛% Collateral Trust Bonds maturing 1985.

After the close of business on December 31, 1977, Fording Coal Limited and CanPac Minerals Limited were amalgamated pursuant to the Canada Business Corporations Act as Fording Coal Limited.

In 1978, up to February 28, CPI acquired an additional 136,800 shares of Dominion Bridge Company, Limited giving it a direct holding of 7.26%. This, together with Algoma Steel's holding of 43.23%, brings the total holding to 5,369,124 shares, or 50.49%.

Cominco Ltd. has arranged to issue in March 1978 $50,000,000 preferred shares of $25 par value. The proceeds will be used to reduce short term debt and for general corporate purposes.

Five-Year Summary

	1973	1974	1975	1976	**1977**
	(in thousands)				
Net income from:					
CP Rail	$ 35,189	$ 44,573	$ 31,691	$ 51,097	**$ 54,792**
CP Trucks	(3,007)	(104)	2,877	1,822	**772**
CP Telecommunications	1,312	726	1,442	2,010	**2,602**
CP Air	4,199	2,441	(6,398)	(9,802)	**3,340**
CP Ships	3,114	18,624	14,571	3,598	**(10,319)**
Miscellaneous	5,233	1,827	4,200	15,055	**7,522**
CP Investments Limited	63,772	114,233	120,925	117,801	**170,002**
Equity in income of subsidiary not consolidated	8,997	7,785	5,897	8,889	**11,151**
Income before extraordinary items	118,809	190,105	175,205	190,470	**239,862**
Extraordinary items	6,179	4,253	—	—	**7,166**
Net income	$124,988	$194,358	$175,205	$190,470	**$247,028**
Per Ordinary share					
Income before extraordinary items	$1.60	$2.61	$2.40	$2.62	**$3.31**
Net income	1.69	2.67	2.40	2.62	**3.41**
Dividends	$0.77	$0.86	$0.845	$0.86	**$0.95**
Market price — High	$19¼	$17¾	$17⅛	$18⅞	**$19¾**
(Toronto Stock Exchange) — Low	14	10½	12⅝	13¼	**16**
Price/earnings ratio — High	11	7	7	7	**6**
— Low	8	4	5	5	**5**

Geographic Distribution of Net Property Investment

at December 31, 1977

	Properties at Cost, less Depreciation (millions)	Percent of Total
Canada		
Maritimes	$ 32	1%
Quebec	343	7
Ontario	1,241	25
Manitoba	106	2
Saskatchewan	242	5
Alberta	708	15
British Columbia	643	13
N.W.T., Yukon & Offshore	104	2
Transportation Equipment	715	15
	4,134	85
Outside Canada		
United States	212	4
Other	119	3
Ocean Ships	405	8
	736	15
Total	$4,870	100%

Canadian Pacific Limited

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